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OFFICE OF INTERNAL OVERSIGHT SERVICES
AUDIT AND MANAGEMENT CONSULTING DIVISION

Ref No. AUD- 6-4-12 (274/98)

22 April 1998

Assignment No. AE98/81/3

To: Mr. J-C Aimé, Executive Secretary
United Nations Compensation CommissionFrom: Corazon C. Chavez, Chief
European Section,
Audit and Management Consulting Division, OIOSSubject: Audit of United Nations Compensation Commission (UNCC)
Contract Award for F2 Claims Review.

The recommendations set out below are submitted for your consideration. Please comment on them and where appropriate, specify the corrective action taken or provide a planned implementation schedule. When commenting please refer to the Assignment No. listed above and to the recommendation number in parentheses in order to facilitate monitoring of its status (timely response, acceptance, implementation). Please reply by 20 May 1998.

Audit Observations and Recommendations

1. Within the framework of the system contracts, UNCC/PTS launched a Request for Quotation for the review of F2 Panel. The UNCC Legal Service prepared the Terms of Reference (TOR) and informed us that they had included our earlier audit recommendations on the matter. However, we noticed that UNCC had not carried out yet our recommendation to involve in-house accountants/loss adjusters in preparing the TOR.

Lack of clear criteria for evaluation of proposals

2. The UNCC Legal Service also evaluated the proposals without involving in-house accountant and loss adjusting expertise. The evaluated proposals were submitted to COC for approval. The COC during its meetings, said that it was difficult to understand the way the quotations were evaluated. In particular, the quotations seemed to have been rated on the basis of criteria that were not clearly defined from the outset.

TOR not clear on expertise and number of hours required

3. The review of UNCC evaluation report revealed that only one company out of four submitted an acceptable quotation. Two companies were rejected because both overestimated the loss adjusting input, whereas the specifications requested that more emphasis be put on accounting tasks. They also

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did not allocate sufficient hours for the review of infrastructure and long term assistance losses.

4. As for the description of the required expertise, the TOR stated in para. 2.3 that the two areas of accounting and loss adjusting expertise would be considered together. However, the TOR did not indicate more clearly the significance of the accounting part and that the bulk of work would have to be done by accountants. In answer to our question on why the TOR did not have this information, UNCC informed us that it was up to the bidders to judge the accounting and loss adjusting part.

5. Furthermore, UNCC informed us that giving more information involved the risk that the companies would not understand the nature of the work. Had UNCC provided this important information at the start, the contractors could have determined more exactly the composition of the team and the hours needed to do the tasks. UNCC could have also initiated a Request for Proposal apart from the system contracts and invited companies with accounting expertise in order to benefit from real competition.

Basis of evaluation not established in advance

6. In the evaluation report, regarding BDO Binder's proposal UNCC stated that:

- the portion of the quotation relating to the verification of the temporary assistance appears to be reasonable;
- the quotation for the task of verifying the long-term returnee appears realistic; and
- a sufficient staffing proposal and allocated satisfactory number of working hours to the task.

7. We asked UNCC what they considered as "reasonable", "realistic" and "sufficient" and whether the criteria (hours, accounting and loss adjusting part, staffing proposal) for the evaluation were established in advance. UNCC answered that they relied on its staff experience. They added that the criteria were the tasks' description in the TOR.

8. Regarding Cunningham's quotation, UNCC stated that their allocation of time for the review of the temporary assistance would be sufficient for the scope of work involved. Cunningham allocated 1,496 hrs. of which 926 hrs. were for loss adjusting tasks. BDO Binder allocated for the same part, 772 hours of which 84 hrs. (9% of hours allocated by Cunningham) were for loss adjusting tasks, but UNCC still considered Cunningham's allocation as reasonable. Comparing the two proposals, we think that the UNCC should have evaluated the time allocated by Cunningham as overestimated. Since there were no criteria (working hours needed to perform the review of accounting and loss adjusting tasks) established before the evaluation was undertaken, we are of the opinion that the evaluations were inadequate.

Unclear requirements on time allocation for long-term care component

9. UNCC evaluated Cunningham's quote for task of verifying the long-term returnee cost as inadequate because the time allocated to verify the claims did not meet the requirements of the project. Out of four quotations from other companies, UNCC rejected three of them for the same reason. It has to be pointed out that the bidders were requested to submit quotation subdivided into two separate components: the temporary assistance and the long-term care. For the latter's cost, UNCC advised the companies that depending on the Panel's decision these costs could possibly not be compensated.

10. Reviewing documents providing information on the subject, we noticed that in the summary of questions, UNCC replied that though there was no Panel decision taken yet, it was possible that major portions, if not all of these costs, would be considered non-compensable. It appears that UNCC emphasised the non-compensability of the claims by including it three times in the summary (see question No 14). The companies could have been misled by those statements. Moreover, UNCC did not inform the contractors that an inadequate proposal for this part would lead to the rejection of the whole proposal.

TOR's inadequate information about on-site inspection, report and other vital information

11. The TOR requested a provision for the costs and expenses of one trip to Jordan for an on-site inspection of buildings and documents for a period of seven days. However, the TOR did not indicate the number of people to be considered by the contractors for the trip, the number of buildings to be visited, location of the buildings and volume of the documents to be reviewed. Thus it was difficult for the companies to present a proposal when vital information was missing. Therefore, the companies requested additional information during the Question and Answer Session (see question nos. 23, 24, 25, etc. of the summary of questions).

12. The TOR did not have sufficient information on:

- the nature, depth or style of the report for Task 3 report. The companies requested the Secretariat its view. UNCC replied that further guidelines would be provided to them by the Secretariat and the Panel. UNCC informed us that the guidelines could be provided at an earlier stage.
- the volume of the additional material to be reviewed in Task I. UNCC informed the companies that the material would consist of a report of approximately 50 pages. This information appeared to have been available to UNCC in the preparatory stage of the TOR, but was not included.
- trips to be made to Geneva. The RFQ did not say the tasks the contractors would perform (see questions No 4 and 5).

13. During our review we asked whether UNCC described the possible audit type approaches prior to the evaluation of proposals. They answered that this had not been undertaken. We also inquired whether UNCC undertook a self-evaluation by requesting the companies involved in the review process to comment on the TORs presented to them. UNCC replied that this had not been envisaged yet, but for future operations, they would consider consulting and discussing the TORs with the Panels.

We recommend that UNCC, in collaboration with the in-house accountants and loss adjusters, review for improvement the Terms of Reference, based on the points raised in this audit observation. The criteria for evaluation of proposals have to be established prior to the evaluation process (Rec. AE98/81/3/101).

14. *We noted that in UNCC Executive Officer Mr. Kyle Ward's 15/4/98 Note for the Record on UNCC Contracting Proposal: evaluation criteria were being developed; guidelines would be in place before the commencement of the work; and monitoring process would be ongoing, in consultation with and incorporating the input of the UNCC Legal Services Branch. UNCC would prepare a framework for the evaluation of bids when E4 bids are received. The frame work would delineate quantifiable criteria to facilitate comparison of bids in a fair and transparent manner. It stated further that details of the evaluation methodology would form part of all future presentation to the Committee on Contracts. We would follow up on the progress and results of this effort to establish clear evaluation framework and criteria which we reiterate to be established in collaboration with in-house accountants and loss adjusters.*

15. Thank you for the cooperation and assistance given to the auditors by the officials and staff of the UNCC.

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UNITED NATIONS COMPENSATION COMMISSION

Comments on audit of United Nations Compensation CommissionContract Award for F2 Claims Review

Ref No. AUD-6-4-12 (274/98)

Assignment No. AE98/81/3

1. As a general comment, it is noted that the reason why the scoping of the work to be performed by the consultants in this particular case was not as straightforward as previously was that the claims in the instalment raise much more complex legal issues than those in earlier instalments, and no precedents were available for the UNCC to provide to the bidders regarding the compensability of the claims. The more specific comments follow.

Observation No. 1 ("Lack of clear criteria for evaluation of proposals")

2. The Observations note that "UNCC has not carried out yet [OIOS's] recommendation to involve in-house accountants/loss adjusters" in the preparation of the terms of reference for consultants or the evaluation of bids.

3. Concerning the participation of UNCC's in-house accountants and loss adjusters in the drafting of the RfQ, it is noted that at the time, in November 1997, UNCC's Verification and Valuation Support Branch ("VVSb") did not yet exist and consequently no in-house accountants or loss adjusters were available.

4. As to the participation of VVSb staff in the evaluation of the bids, it is noted that at the time, in January 1998, two loss adjusters had just recently joined the newly-established VVSb and accordingly were not yet familiar with the F2 project nor were they assigned to work on that particular project. However, the Chief Designate of VVSb reviewed the evaluation prepared by the Legal Services Branch during his two-week consultancy contract with the UNCC in late January 1998, and he agreed with the evaluation. This was brought to the attention of the auditors at our meeting in February 1998, which was attended by the Chief Designate.

5. Concerning the suggested lack of clear criteria for evaluation of proposals, it is noted that the evaluation was based on criteria previously applied by the UNCC in the evaluation of proposals submitted under the System Contract.

Observation No. 2 ("[Terms of Reference] not clear on expertise and number of hours required")

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6. With regard to the suggestion that the RfQ did not indicate clearly the ratio between accounting and loss adjusting expertise, it is noted that the RfQ required both types of expertise and indicated that they would be considered together. No further specification was provided, given the scope of the project and the fact that bidders would have full access to all the claim documentation at the time of the document inspection. In these circumstances, it was felt that providing a precise accounting/loss adjusting ratio in the RfQ would effectively undercut one of the purposes of the document inspection and would amount to substituting the bidders' expertise in the preparation of their bids.

7. Contrary to what is stated in the Observations, the UNCC representatives have not informed the auditors that "giving it is information [i.e., the accounting/loss adjusting ratio] involved the risk that companies would not understand the nature of the work." What was stated was that, providing such information in the RfQ would make it more difficult for the UNCC to verify, at the time of the evaluation of the bids, whether or not the bidders had properly understood the nature and scope of the project. In other words, it was felt that it should be left for the bidders to review the documents in order to develop their own understanding and, accordingly, to make their own estimate of the proper mix of accounting/loss adjusting expertise required to perform the tasks defined in the RfQ.

8. In any event, while the UNCC has indicated in certain RfQs/RfPs, where such indication has been considered appropriate in view of the nature and scope of the project, whether accounting or loss adjusting expertise would be predominantly required, we believe that even in these instances the assessment of the precise accounting/loss adjusting ratio should be left to the bidders, to ensure appropriate competitiveness in the bidding process. In our view, providing too much detail in the RfQ on the UNCC's requirements and the nature and scope of the project would eliminate all exercise of discretion on the part of the bidders and, consequently, would result in practically identical proposals, thus effectively undermining the object and purpose of the bidding process.

Observation No. 3 ("Basis of evaluation not established in advance")

9. With regard to the comparison of the UNCC's evaluation of the bids of BDO and Cunningham, we note that the comparison is not on point because the term "reasonable" in the UNCC's evaluation of BDO's bid refers to the price of the bid, whereas the term "sufficient" in connection with the evaluation of Cunningham's bid refers to the allocation of time between the accounting and loss adjusting tasks.

10. It is correct, as stated in the Observations, that the UNCC had not prepared written evaluation criteria specifically for the purpose of evaluating these particular bids. The evaluation was based on the terms of the RfQ and the experience gained by the UNCC in connection with the evaluation of bids previously submitted under the System Contract. In any event, as noted in paragraph 14 of the Observations, the UNCC is currently in the process of developing written criteria for the evaluation of bids.

Observation No. 4 ("Unclear requirements on time allocation for long-term care component")

11. With regard to the suggestion that the UNCC may have overemphasized the possible non-compensability of the infrastructure and long-term care for returnee costs, thus possibly misleading the bidders, it is noted that it was specifically stated in the written summary of

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questions and answers, referred to in the Observations, that "potential contractors are requested to provide a separate quote for the cost of verifying infrastructure and long-term care for returnees claims." (Summary, para. 14.2) This instruction was provided in boldface, to ensure that the bidders understood that an adequate bid would have to be submitted, despite a potential adverse decision by the panel as to compensability.

12. In addition, the UNCC did orally inform all the bidders that they must comply with the terms of the RfQ. This instruction was not included in the written summary because the instruction was not given in response to any particular question.

Observation No. 5 ("TOR's inadequate information about on-site inspection, report and other vital information")

13. With regard to the suggested lack of information regarding the scope of the on-site inspection in Jordan, we note that it would not have been possible to provide any further particulars in this regard, because the precise scope and modalities of the inspection will essentially depend on the Panel's decision on the compensability of the infrastructure and long-term care for returnees costs. This was confirmed in a response provided by the UNCC at the time of the document inspection (see Summary, para. 23).

14. With regard to the suggested lack of information on the nature, depth or style of the Task 3 report, we note that the format of the report in this particular case will largely depend on the panel's decision on compensability and their instructions to the consultants. This was confirmed at the question and answer session held in connection with the document inspection. See para. 11 of the Summary. In any event, as stated by the UNCC in meetings with the auditors, guidelines for such reports will be prepared for standardized claims review programs where standard report format can be appropriately used.

15. The volume of additional material (approximately 50 pages) will not substantially affect the scope of work to be performed by the consultants and, accordingly, has no material impact on the bidding process. Moreover, such materials will consist of legal analyses prepared by the UNCC legal officers for the benefit of the Panel and in the absence of a panel decision on the main legal issues will not be of major relevance to the contractor.

16. With regard to the questions raised in connection with the document inspection regarding the work to be performed during the trips to Geneva, such questions are often raised at the time of document inspections. Normally the timing of such trips and the work to be performed during the trips can be inferred from the RfQs. Moreover, the information provided by the UNCC in response to such questions has no material impact on the bidding process and does not affect the scope of the work as described in the RfQs, which was also the case here.

Recommendation AE98/81/3/101

17. In its Standard Operating Procedures ("SOPS") provisionally approved on 8 December 1997, the UNCC secretariat has established a clear framework for the drafting of terms of reference for consultants, the evaluation of bids, as well as the monitoring of the work of consultants. In accordance with the SOPS, UNCC's in-house accountants and loss adjusters will play a major role in this process.

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18. We agree with the auditors' recommendation that the evaluation of bids must be based on clear, pre-established criteria. However, while it is recommendable that such criteria are put to the extent possible in a written format, in our view such criteria cannot, and should not, exclude reliance on professional competence and experience, to the extent necessary to interpret and apply such pre-established criteria and to fill the inevitable gaps.
